MARTIN PUBLIC SCHOOLS

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)

YEAR ENDED JUNE 30, 2007

C O N T E N T S

C O N T E N T S

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Maner, Costerisan & Ellis, P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Martin Public Schools
Martin, Michigan

September 12, 2007

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Martin Public Schools, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Martin Public Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Martin Public Schools as of June 30, 2007 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2007, on our consideration of Martin Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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To the Board of Education
Martin Public Schools

September 12, 2007

The management's discussion and analysis and budgetary comparison information on pages vi through xii and 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Martin Public Schools' basic financial statements. The additional information on pages 26 to 34 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maner, Costerisan & Ellis, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Martin Public Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended June 30, 2007. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

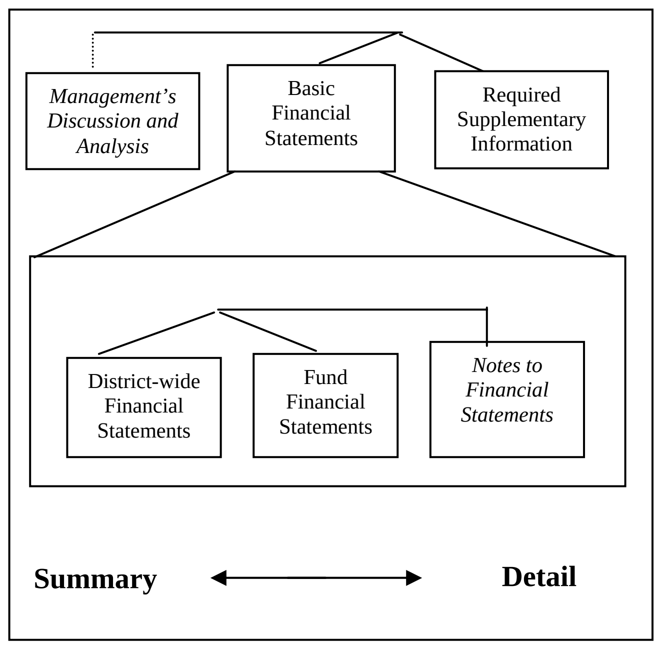
- Revenues increased 3.0 percent to $6.6 million mainly due to increased property taxes. Expenditures increased .32 percent to $6.1 million due to payroll related increases and increases in energy costs.
- General Fund revenues were $5.5 million, $259,071 more than general fund expenditures and transfers.
- The District's fall student count decreased by 31 students to 648 pupils.
- The total taxable value of property in the District increased 5.98 percent. The five-year average for taxable value increases is 6.04 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide notes to financial statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

Figure A-1
Organization of the Martin Public Schools' Annual Financial Report



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2
Major Features of District-Wide and Fund Financial Statements

	District-wide Statements	Fund Financial Statements: Governmental Funds	Fund Financial Statements: Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Martins' funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District’s net assets and how they have changed. Net assets - the difference between the District’s assets and liabilities - are one way to measure the District’s financial health or position.

- Over time, increases or decreases in the District’s net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District’s property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District’s activities:

- Governmental activities - Most of the District’s basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District’s funds, focusing on its most significant or “major” funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (like repaying its building and site fund) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- Governmental funds - Most of the District’s basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - The District’s combined net assets were more on June 30, 2007 than the year before, increasing from $1,700,256 to $2,175,139.

Table A-3
Martin Public Schools
Net Assets

	2007	2006
Current assets	$ 2,229,231	$ 2,008,893
Capital assets	7,430,683	7,586,409
Total assets	9,659,914	9,595,302
Long-term debt outstanding	5,793,159	6,163,257
Other liabilities	1,691,616	1,731,789
Total liabilities	7,484,775	7,895,046
Net assets:		
Invested in capital assets, net of related debt	1,233,077	1,074,589
Restricted for debt service	176,978	142,932
Unrestricted	765,084	482,735
Total net assets	$ 2,175,139	$ 1,700,256

Table A-4
Changes in Martin Public Schools' Net Assets

	2007	2006
Revenues:		
Program revenues:		
Charges for services	$ 213,114	$ 224,325
Federal and state categorical grants	747,501	777,395
General revenues:		
Property taxes	1,112,485	1,047,610
Investment	44,740	28,769
State aid - unrestricted	4,158,632	4,137,031
ISD	129,399	130,556
Other	177,856	45,568
Total revenues	6,583,727	6,391,254
Expenses:		
Instruction	3,020,239	3,026,584
Support services	2,109,065	2,121,531
Food services	253,193	238,486
Athletics	213,699	166,013
Interest on long-term debt	288,907	323,847
Unallocated depreciation	223,741	242,584
Total expenses	6,108,844	6,119,045
Changes in net assets	$ 474,883	$ 272,209

District Governmental Activities

- Proposal A established the student foundation grant concept, and has increased that amount from $4,636 per student in 1995 to $7,085 per student in 2007.

- Declining enrollment has been ongoing for the past 10 years. In the fiscal year 1999, state aid membership was 772.5 and in seven years has decreased by 20% to 648.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds, with a combined fund balance of $1,061,533 in 2007 compared to $828,941 in 2006.

For fiscal year 2007, food service revenues were $6,162 more than the yearly expenditures, leaving a fund balance of $43,181. Indirect costs were not charged to the food service fund. Athletic expenditures were almost two times more than revenues. The general fund subsidized the athletic fund which enabled this fund to reach its expected balance of matching revenues to expenditures.

General Fund and Budget Highlights

During the 2007 fiscal year the original District budget was amended two times to reflect changes which affected the District.

The initial amendment took place in March. Prior to that, there were no significant budget changes.

Final amendments took place in June to reflect the most up to date revenues and expenditures. Revenue was to be $186,256 more than expenditures and transfers. Final results showed that revenues came in slightly higher $30,003 and expenditures and transfers came in less $42,812. The net result was a change in fund balance of $259,071 increasing the fund balance to $785,739.

General fund expenditures came within .6% of the budgeted amount. Overall the difference between the final District amended budget and the end of year figures amounted to more than 1%. In the final analysis, when compared to the Board adopted budget of June 2006, revenues were higher by more than 1% and expenditures were within by 1/2% of budgeted amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Table A-5
Martin Public Schools' Capital Assets

	2007 Cost	2007 Accumulated depreciation	2007 Net book value	Net book value 2006
Land	$ 25,000	$	$ 25,000	$ 25,000
Buildings and improvements	9,422,097	2,646,162	6,775,935	6,977,515
Technology	619,766	571,191	48,575	32,616
Furniture and fixtures	500,790	209,543	291,247	316,374
Machinery and equipment	280,625	144,501	136,124	123,565
Transportation equipment	454,635	385,633	69,002	22,209
Total	$ 11,302,913	$ 3,957,030	$ 7,345,883	$ 7,497,279

LONG-TERM DEBT

At year-end the District had $6,265,202 long-term debt outstanding as shown in Table A-6. Depreciation expense for the year ended June 30, 2007 was $278,903. More detailed information is available in Note 7 to the financial statements.

The District paid down its debt by $469,190.

Table A-6
Martin Public Schools
Outstanding Long-Term Debt

	2007	2006
General obligation bonds	$ 6,083,628	$ 6,483,197
Durant - limited obligation bonds	28,623	28,623
Notes payable	85,355	
Compensated absences	67,596	120,996
	$ 6,265,202	$ 6,632,816

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of a few existing circumstances that could significantly affect its financial health in the future:

- The 2007-2008 foundation allowance has not been finalized by the State of Michigan, and the weak state economy could require pro-rations in the state aid. The foundation allowance represents 86 percent of total District revenue.

- Student enrollment is uncertain.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Martin Public Schools, 1619 University Street, Martin, Michigan 49070.

MARTIN PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental activities
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 793,321
Investments	555,538
Receivables:	
Accounts receivable	6,553
Due from other governmental units	824,025
Prepaid expenses	44,537
Inventories	5,257
TOTAL CURRENT ASSETS	2,229,231
NONCURRENT ASSETS:	
Bond issuance costs, net of amortization	84,800
Capital assets	11,302,913
Less accumulated depreciation	(3,957,030)
TOTAL NONCURRENT ASSETS	7,430,683
TOTAL ASSETS	$ 9,659,914
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	$ 15,899
Note payable	625,000
Accrued salaries and related items	388,949
Accrued interest	74,341
Deferred revenue	115,384
Current portion of long-term debt	465,284
Current portion of compensated absences	6,759
TOTAL CURRENT LIABILITIES	1,691,616
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term debt	5,732,322
Noncurrent portion of compensated absences	60,837
TOTAL NONCURRENT LIABILITIES	5,793,159
TOTAL LIABILITIES	7,484,775
NET ASSETS:	
Invested in capital assets net of related debt	1,233,077
Restricted for debt service	176,978
Unrestricted	765,084
TOTAL NET ASSETS	2,175,139
TOTAL LIABILITIES AND NET ASSETS	$ 9,659,914

See notes to financial statements.

MARTIN PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Functions/programs	Expenses	Program revenues: Charges for services	Program revenues: Operating grants	Governmental activities: Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	$ 3,020,239	$	$ 552,281	$ (2,467,958)
Support services	2,109,065		64,793	(2,044,272)
Food service	253,193	123,522	130,427	756
Athletics	213,699	89,592		(124,107)
Interest on long-term debt	288,907			(288,907)
Unallocated depreciation	223,741			(223,741)
Total governmental activities	$ 6,108,844	$ 213,114	$ 747,501	(5,148,229)
General revenues:				
Property taxes, levied for general purposes				412,861
Property taxes, levied for debt service				699,624
Investment earnings				44,740
State sources				4,158,632
Allegan ISD allocation				129,399
Other				177,856
Total general revenues				5,623,112
CHANGE IN NET ASSETS				474,883
NET ASSETS, beginning of year				1,700,256
NET ASSETS, end of year				$ 2,175,139

See notes to financial statements.

MARTIN PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General fund	1998 debt fund	2001 debt fund	2006 debt fund	Other nonmajor governmental funds	Total governmental funds
ASSETS						
ASSETS:						
Cash and cash equivalents	$ 568,591	$ 41,620	$ 49,092	$ 114,089	$ 19,929	$ 793,321
Investments	555,538					555,538
Receivables:						
Accounts receivable	5,055				1,498	6,553
Other governmental units	824,025					824,025
Due from other funds	17,048	40,143			13,365	70,556
Prepaid expenditures	29,537				15,000	44,537
Inventories					5,257	5,257
TOTAL ASSETS	$ 1,999,794	$ 81,763	$ 49,092	$ 114,089	$ 55,049	$ 2,299,787
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable	$ 7,041	$	$	$	$ 8,858	$ 15,899
Note payable	625,000					625,000
Accrued interest payable	21,716					21,716
Accrued salaries and related items	388,949					388,949
Deferred revenue	116,134					116,134
Due to other funds	55,215	3,143	8,857	3,341		70,556
TOTAL LIABILITIES	1,214,055	3,143	8,857	3,341	8,858	1,238,254

	General fund	1998 debt fund	2001 debt fund	2006 debt fund	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:						
Reserved for debt service	$	$ 78,620	$ 40,235	$ 110,748	$	$ 229,603
Reserved for prepaid expenditures	29,537				15,000	44,537
Reserved for inventories					5,257	5,257
Designated for subsequent expenditures	176,330					176,330
Unreserved, undesignated	579,872				25,934	605,806
TOTAL FUND BALANCES	785,739	78,620	40,235	110,748	46,191	1,061,533
TOTAL LIABILITIES AND FUND BALANCES	$ 1,999,794	$ 81,763	$ 49,092	$ 114,089	$ 55,049	$ 2,299,787

Total governmental fund balances		$ 1,061,533
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of the capital assets is	$ 11,302,913	
Accumulated depreciation is	(3,957,030)	
		7,345,883
Long-term liabilities are not due and payable in the current period and are not reported in the funds		
Long-term debt		(6,303,978)
Compensated absences		(67,596)
Accrued interest is not included as a liability in government funds, it is recorded when paid		(52,625)
Deferred loss on bond refunding		128,768
Deferred bond premium		(22,396)
Unamortized issuance costs on bonds		84,800
Balance of taxes receivable at June 30, 2007 less allowance for doubtful accounts, expected to be collected after September 1, 2007		750
Net assets of governmental activities		$ 2,175,139

See notes to financial statements.

MARTIN PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General fund	1998 debt fund	2001 debt fund	2006 debt fund	Other nonmajor governmental funds	Total governmental funds
REVENUES:						
Local sources:						
Property taxes	$ 412,861	$ 293,842	$ 223,880	$ 181,902	$	$ 1,112,485
Investment earnings	32,868	3,252	3,152	5,468		44,740
Food sales and athletic admissions					213,114	213,114
Other	150,065				27,791	177,856
Total local sources	595,794	297,094	227,032	187,370	240,905	1,548,195
State sources	4,482,598				7,816	4,490,414
Federal sources	293,108				122,611	415,719
Intermediate sources	129,398					129,398
Total revenues	5,500,898	297,094	227,032	187,370	371,332	6,583,726
EXPENDITURES:						
Current:						
Instruction	3,110,489					3,110,489
Supporting services	2,133,243					2,133,243
Food service activities					253,193	253,193
Athletic activities					229,071	229,071
Debt service:						
Principal retirement		230,000	175,000			405,000
Interest and fiscal charges		57,830	42,735	218,746		319,311
Payment agent fees						
Total expenditures	5,243,732	287,830	217,735	218,746	482,264	6,450,307

	General fund	1998 debt fund	2001 debt fund	2006 debt fund	Other nonmajor governmental funds	Total governmental funds
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ 257,166	$ 9,264	$ 9,297	$ (31,376)	$ (110,932)	$ 133,419
OTHER FINANCING SOURCES (USES):						
Proceeds from debt	99,173					99,173
Operating transfers from other funds					97,268	97,268
Operating transfers to other funds	(97,268)					(97,268)
Total other financing sources	1,905				97,268	99,173
NET CHANGE IN FUND BALANCES	259,071	9,264	9,297	(31,376)	(13,664)	232,592
FUND BALANCES:						
Beginning of year	526,668	69,356	30,938	142,124	59,855	828,941
End of year	$ 785,739	$ 78,620	$ 40,235	$ 110,748	$ 46,191	$ 1,061,533

See notes to financial statements.

MARTIN PUBLIC SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Net change in fund balances total governmental funds	$ 232,592
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation expense	(278,903)
Capital outlay	127,507
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable beginning of the year	83,029
Accrued interest payable end of the year	(52,625)
Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	
Principal payments on bonds	405,000
Financing sources bus loan	(67,547)
Financing sources from AAESA	(31,626)
Payments on long-term debt	13,817
Amortization on bond premiums	1,144
Amortization on bond issue costs	(4,330)
Amortization of deferred amount on bond refundings	(6,575)
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:	
Deferred revenue beginning of the year	(750)
Deferred revenue end of the year	750
Compensated absences and voluntary severance plan are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Accrued compensated absences beginning of the year	65,192
Accrued compensated absences end of the year	(67,596)
Accrued voluntary severance plan beginning of the year	55,804
Change in net assets of governmental activities	$ 474,883

MARTIN PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2007

	Agency funds
ASSETS	
Cash	$ 45,498
LIABILITIES	
Liabilities:	
Due to student groups	$ 45,498

See notes to financial statements.

MARTIN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Martin Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Martin Public Schools (the "District") is governed by the Martin Public Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined by GASB Statements No. 14 and 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues.*

In the government-wide statement of net assets, the governmental activities (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

> The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.
>
> The *1998, 2001 and 2006 debt service funds* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Concluded)

Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

For the year ended June 30, 2007, approximately $78,000 of non cash transactions from the Michigan Department of Education (MDE) has been recorded as state aid revenue and pension expenditures as a result of a change in funding by the MDE.

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

   The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit (Concluded)

   State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property taxes

   Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

   For the year ended June 30, 2007, the District levied the following amounts per $1,000 of assessed valuation:

Fund	Mills
General fund - Non-homestead	18.00
Debt service fund-Homestead and non-homestead	6.00

3. Inventories and prepaid expenditures

   Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

4. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years

The District's capitalization policy is to capitalize individual amounts exceeding $1,000.

6. Compensated absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

7. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether of not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

2. Public hearings are conducted to obtain taxpayer comments.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

4. The Superintendent of Business is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.

6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The District does not consider these amendments to be significant.

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK

As of June 30, 2007, the District had the following investments.

Investment Type	Fair value	Weighted average maturity (years)	Standard & Poor's Rating	%
Guaranteed Investment Contract (GIC)	$ 555,538	0.0567	A1+	100%
Portfolio weighted average maturity		0.0567		

1 day maturity equals 0.0027, one year equals 1.00

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements.

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Continued)

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, $677,644 of the District's bank balance of $877,644 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying value is $793,321 and $45,498 for the fiduciary funds.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

The District's Guaranteed Investment Contract is collateralized and invested for the purpose of paying off the note payable disclosed in Note 6.

The Investment Agreement, dated as of August 18, 2006, by and among Wells Fargo Bank, N.A., as the Depository on behalf of both the participating Michigan School Districts and the Michigan Municipal Bond Authority, and Citigroup Global Markets, Inc., as Provider.

The net proceeds from the sale of the 2006 Series B-1 Notes were loaned by the Authority to Michigan School Districts. Such loans were repaid with monthly set-a-side installments deposited with the Depository for investment under the Investment Agreement. Set-a-side installments are deposited under the Investment Agreement versus Permitted Investments (collateral securities) equaling at least 102% of the deposited amount and such Permitted Investments are held by the Depository in a fiduciary capacity.

The Guaranteed Rate under this Investment Agreement (commonly referred to as guaranteed investment contract-GIC or collateralized investment agreement-CIA) is 5.01% (simple interest actual days elapsed over a 365-day year).

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Concluded)

The Guarantor is Citigroup Global Markets Holdings, Inc., as guarantor of the Provider's obligations under this Investment Agreement.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of $45,498	$ 838,819
Investments	555,538
	$ 1,394,357

The above amounts are reported in the financial statements as follows:

Cash - Agency fund	$ 45,498
Cash - District-wide	793,321
Investments - District-wide	555,538
	$ 1,394,357

NOTE 4 - RECEIVABLES

Receivables from governmental units at June 30, 2007 consist of the following:

Other governmental units:	
State aid	$ 759,234
Other	64,791
	$ 824,025

NOTE 5 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 25,000	$	$	$ 25,000
Total capital assets not being depreciated	25,000			25,000
Capital assets, being depreciated:				
Buildings and improvements	9,422,097			9,422,097
Technology	582,916	36,850		619,766
Furniture and fixtures	500,790			500,790
Machinery and equipment	257,515	23,110		280,625
Transportation equipment	387,088	67,547		454,635
Total capital assets, being depreciated	11,150,406	127,507		11,277,913
Accumulated depreciation:				
Buildings and improvements	2,444,582	201,580		2,646,162
Technology	550,300	20,891		571,191
Furniture and fixtures	184,416	25,127		209,543
Machinery and equipment	133,950	10,551		144,501
Transportation equipment	364,879	20,754		385,633
Total accumulated depreciation	3,678,127	278,903		3,957,030
Net capital assets being depreciated	7,472,279	(151,396)		7,320,883
Net governmental capital assets	$ 7,497,279	$ (151,396)	$	$ 7,345,883

Depreciation for the fiscal year ended June 30, 2007 amounted to $278,903. The District allocated depreciation to the various activities as follows:

Athletics	$ 7,737
Support services	47,425
Unassigned	223,741
	$ 278,903

NOTE 6 - NOTE PAYABLE

At June 30, 2007, the District has a note payable outstanding of $625,000. The note has an interest rate of 3.68% and matures August 2007. The District has $553,538 of funds on deposit with a financial institution, which are included in investments on the general fund balance sheet, to be applied against the $625,000 note. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2006	Additions	Payments	Balance June 30, 2007
$ 625,000	$ 625,000	$ 625,000	$ 625,000

NOTE 7 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. At June 30, 2007 the District has no general obligation bonds outstanding. Long-term obligations currently outstanding are as follows:

1998 refunding bonds due in annual installements of $240,000 to $260,000 through May 1, 2011 with interest from 4.45% to 4.75%	$ 1,010,000
2001 school building and site bonds due in annual installments of $190,000 to $225,000 through May 1, 2011 with interest from 4.20% to 4.30%	830,000
2006 refunding bonds due in annual installments of $15,000 to $270,000 through May 1, 2027 with interest from 3.25% to 4.0%	4,350,000
Limited obligation (Durant) bond, due in installments of $3,887 to $11,718 through May 15, 2013, with interest of 4.76%. Certain future state aid payments have been pledged as security.	28,623
Less: deferred amount on bond refunding	(128,768)
Plus: premium on 2006 bond issuance (net)	22,396
Total bonded debt	6,112,251
Note payable due in annual installments of $7,906 through April 2011. Collateralized by software. Note is non-interest bearing.	31,625
Note payable due in annual installments of $15,284 on February 1 including interest at 5.34% through February 2011. Note is collaterlized by bus.	53,730
Compensated absences and severance benefits	67,596
Total general long-term debt	$ 6,265,202

Interest expense (all funds) for the year ended June 30, 2007 was $ 341,690.

NOTE 7 - LONG-TERM DEBT (Continued)

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

The annual requirements to amortize long-term debt outstanding as of June 30, 2007, including interest of $2,479,712, are as follows:

Year ending June 30,	Principal	Interest	Total
2008	$ 465,284	$ 260,333	$ 725,617
2009	489,836	241,299	731,135
2010	515,732	219,889	735,621
2011	526,726	157,195	683,921
2012	276,719	176,213	452,932
2013-2017	1,329,681	707,323	2,037,004
2018-2022	1,350,000	493,900	1,843,900
2023-2027	1,350,000	223,560	1,573,560
Total	6,303,978	$ 2,479,712	$ 8,783,690
Less deferred amount on 2006 refunding	(128,768)		
Plus premium on 2006 refunding	22,396		
Accumulated compensated absences	67,596		
	$ 6,265,202		

NOTE 7 - LONG-TERM DEBT (Concluded)

At June 30, 2007, $229,603 is available in the debt service funds to service the general obligation debt.

The following is a summary of long-term obligations for the District for the year ended June 30, 2007:

	General obligations bonds	Limited obligation Durant bonds	Nonbonded debt	Compensated absences and voluntary termination benefits	Total
Balance, July 1, 2006	$ 6,483,197	$ 28,623	$	$ 120,996	$ 6,632,816
Additions			99,172	2,404	101,576
Deletions	399,569		13,817	55,804	469,190
Balance, June 30, 2007	6,083,628	28,623	85,355	67,596	6,265,202
Less current portion	445,000		20,284	6,759	472,043
Total due after one year	$ 5,638,628	$ 28,623	$ 65,071	$ 60,837	$ 5,793,159

Voluntary Termination Benefits

In prior years, the District had entered into voluntary termination benefit arrangements with certain employees. The District made the final payment of $55,804 in 2007. The administrative company makes payments as follows. The original agreements provide for a total payment range of $48,618 to $57,074 to each employee retiring in 2002-2003. The amount requires monthly installments ranging from $1,528 to $546 for a range of 36 to 72 months. There are currently six employees entitled to future payments. At June 30, 2007, the District's liability was zero.

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2007 are as follows:

Receivable fund		Payable fund	
General	$ 17,048	General	$ 55,215
Special revenue	13,365		
Debt service 1998	40,143	Debt service 1998	3,143
Debt service 2001		Debt service 2001	8,857
Debt service 2006		Debt service 2006	3,341
	$ 70,556		$ 70,556

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPSERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 4.3% of all wages over $15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2007 was 16.34 % through September 30, 2006 and 17.74% effective October 1, 2006 through June 30, 2007. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2007, 2006 and 2005 were approximately $510,000, $466,000, and $422,000, respectively, and were equal to the required contribution for those years.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

The District is not responsible for the payment of retirement or post-employment benefits which is the responsibility of the State of Michigan.

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District purchases commercial insurance to cover any losses that may result from the above described activities. No settlements have occurred in excess of coverage for June 30, 2007.

NOTE 11 - TRANSFERS

The general fund transferred $97,268 to the athletic fund during the current fiscal year to balance subsidize functions.

NOTE 12 - SUBSEQUENT EVENTS

The District has approved borrowing $625,000 for fiscal year 2008 to replace the note payable as described in Note 6.

REQUIRED SUPPLEMENTARY INFORMATION

MARTIN PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2007

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local	$ 577,069	$ 589,392	$ 595,794	$ 6,402
State sources	4,488,245	4,386,877	4,482,598	95,721
Federal sources	297,862	295,061	293,108	(1,953)
Incoming transfers and other transactions	20,000	199,565	129,398	(70,167)
Total revenues	5,383,176	5,470,895	5,500,898	30,003
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	2,479,829	2,449,048	2,463,051	(14,003)
Added needs	651,288	646,061	647,438	(1,377)
Total instruction	3,131,117	3,095,109	3,110,489	(15,380)
Support services:				
Pupil	258,155	257,474	261,823	(4,349)
Instructional staff	110,911	111,408	113,328	(1,920)
General administration	329,395	333,925	340,877	(6,952)
School administration	342,242	342,026	343,997	(1,971)
Business	247,766	211,660	256,788	(45,128)
Operation and maintenance services	608,302	613,969	529,009	84,960
Transportation	226,403	276,617	249,003	27,614
Other supporting services	3,700	36,355	38,418	(2,063)
Total support services	2,126,874	2,183,434	2,133,243	50,191
Total expenditures	5,257,991	5,278,543	5,243,732	34,811
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	125,185	192,352	257,166	64,814
OTHER FINANCING SOURCES AND (USES):				
Proceeds from bus loan	67,547	67,547	67,547	
Proceeds from AAESA loan			31,626	31,626
Operating transfers out	(65,000)	(73,643)	(97,268)	(23,625)
Total other financing sources (uses)	2,547	(6,096)	1,905	8,001
NET CHANGE IN FUND BALANCE	$ 127,732	$ 186,256	259,071	$ 72,815
FUND BALANCE:				
Beginning of year			526,668	
End of year			$ 785,739	

ADDITIONAL INFORMATION

MARTIN PUBLIC SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
June 30, 2007
(with comparative totals for June 30, 2006)

	School lunch fund	Athletics fund	Total 2007	Total 2006
ASSETS				
Cash and cash equivalents	$ 18,102	$ 1,827	$ 19,929	$ 20,041
Accounts receivable	315	1,183	1,498	
Prepaid expenditures	15,000		15,000	15,000
Inventories - food service	5,257		5,257	4,367
Due from general fund	13,365		13,365	21,612
Total assets	$ 52,039	$ 3,010	$ 55,049	$ 61,020
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 8,858	$	$ 8,858	$ 1,165
Total liabilities	8,858		8,858	1,165
Fund balances:				
Reserved for:				
Prepaid expenditures	15,000		15,000	
Inventories	5,257		5,257	4,367
Unrestricted:				
Undesignated	22,924	3,010	25,934	55,488
Total fund balances	43,181	3,010	46,191	59,855
Total liabilities and fund balances	$ 52,039	$ 3,010	$ 55,049	$ 61,020

MARTIN PUBLIC SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2007
(with comparative totals for the year ended June 30, 2006)

	School lunch fund	Athletics fund	Total 2007	Total 2006
REVENUES:				
Sale of lunches and milk	$ 123,522	$	$ 123,522	$ 131,705
Federal aid	122,611		122,611	101,938
State aid	7,816		7,816	7,927
Other sources	5,406	22,385	27,791	4,048
Athletic events		89,592	89,592	92,620
Total revenues	259,355	111,977	371,332	338,238
EXPENDITURES:				
Salaries and wages	67,680	87,497	155,177	145,425
Employee benefits	16,459	9,772	26,231	24,348
Supplies and other expenses	20,892	108,692	129,584	107,601
Food costs	103,169		103,169	75,831
Contracted services	43,693		43,693	44,231
Capital outlay	1,300	23,110	24,410	
Total expenditures	253,193	229,071	482,264	397,436
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	6,162	(117,094)	(110,932)	(59,198)
OTHER FINANCING SOURCES:				
Operating transfer in from general fund		97,268	97,268	95,144
NET CHANGE IN FUND BALANCES	6,162	(19,826)	(13,664)	35,946
FUND BALANCES, beginning of year	37,019	22,836	59,855	23,909
FUND BALANCES, end of year	$ 43,181	$ 3,010	$ 46,191	$ 59,855

MARTIN PUBLIC SCHOOLS
AGENCY FUND
STUDENT ACTIVITIES FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Band	$ 676	$ 6,110	$ 7,005	$ (219)
Home Economics	2		2	
Science Department F/R	568	365	374	559
Advanced Biology	208			208
Drama	287	2,047	1,276	1,058
Spanish club	1,081			1,081
Class of 2007	1,410	3,863	5,272	1
Class of 2008	225	7,285	6,754	756
Class of 2009	252	340	500	92
Class of 2010		380	40	340
Junior High Senate	79	815	850	44
Student Senate	3,022	5,792	6,220	2,594
Shop	(3,172)	10,084	9,351	(2,439)
Revolving textbook	6,926	720		7,646
Revolving other		1,359	1,359	
Louise Knobloch	1,000			1,000
Yearbook Clipper	5,748	14,981	17,697	3,032
Clipper Log	87			87
Junior High Society		171	171	
National Honor Society		1,485	1,405	80
Pals	543	257	314	486
Building fund - High School	7,309	10,951	6,019	12,241
Target Education Fund	985	68		1,053
Mini-Society - Careers	(57)			(57)
Middle school end of year	221		150	71
Field trips		764	764	
Popcorn machine	428			428
Media Center		1,069	1,049	20
Concessions		10,702	9,434	1,268
Robert D. Brandon Elementary	11,136	22,899	19,967	14,068
Totals	$ 38,964	$ 102,507	$ 95,973	$ 45,498

MARTIN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2007

$2,655,000 Bond Issued January 1, 1998

Principal due May 1,	Interest due May 1,	Interest due November 1,	June 30,	Amount
$ 240,000	$ 23,558	$ 23,558	2008	$ 287,116
250,000	18,097	18,097	2009	286,194
260,000	12,285	12,285	2010	284,570
260,000	6,175	6,175	2011	272,350
$ 1,010,000	$ 60,115	$ 60,115		$ 1,130,230

Above bonds dated January 1, 1998 were issued for the purpose of constructing and remodeling school facilities. Interest varies from 4.45% to 4.75%.

MARTIN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2007

$5,590,000 Bond Issued August 1, 2001

Principal due May 1,	Interest due May 1,	Interest due November 1,	June 30,	Amount
$ 190,000	$ 17,542	$ 17,542	2008	$ 225,084
200,000	13,553	13,553	2009	227,106
215,000	9,352	9,352	2010	233,704
225,000	4,838	4,838	2011	234,676
$ 830,000	$ 45,285	$ 45,285		$ 920,570

Above bonds dated August 1, 2001 were issued for the purpose of constructing and remodeling school facilities. Interest varies from 4.2 % to 4.3 %.

MARTIN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2007

$4,350,000 Bond Issued February 2, 2006

Principal due May 1,	Interest due May 1,	Interest due November 1,	June 30,	Amount
$ 15,000	$ 87,613	$ 87,613	2008	$ 190,226
15,000	87,370	87,369	2009	189,739
15,000	87,126	87,126	2010	189,252
15,000	66,872	66,872	2011	148,744
265,000	86,610	86,610	2012	438,220
265,000	81,310	81,310	2013	427,620
265,000	76,010	76,010	2014	417,020
265,000	70,710	70,710	2015	406,420
265,000	65,410	65,410	2016	395,820
265,000	60,110	60,110	2017	385,220
270,000	54,810	54,810	2018	379,620
270,000	49,410	49,410	2019	368,820
270,000	44,010	44,010	2020	358,020
270,000	38,610	38,610	2021	347,220
270,000	33,210	33,210	2022	336,420
270,000	27,810	27,810	2023	325,620
270,000	22,410	22,410	2024	314,820
270,000	17,010	17,010	2025	304,020
270,000	11,340	11,340	2026	292,680
270,000	5,670	5,670	2027	281,340
$ 4,350,000	$ 1,073,431	$ 1,073,430		$ 6,496,861

Above bonds dated February 2, 2006 were issued for the purpose of advance refunding a portion the 2001 bond issue. Interest varies from 3.25% to 4.20%

MARTIN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2007

$69,835 School Improvement Bonds (Durant) - Limited Obligation Bonds

Principal due May 1,	Interest payment	May 15,	Amount
$	$	2008	$
3,887	1,018	2009	4,905
4,072	833	2010	4,905
4,265	638	2011	4,903
11,718	2,993	2012	14,711
4,681	223	2013	4,904
$ 28,623	$ 5,705		$ 34,328

The above bond issue bears interest at 4.76%.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

MARTIN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2007

Note payable for software purchased through AAESA

Principal due April 1	June 30
$ 7,906	2008
7,906	2009
7,906	2010
7,907	2011
$ 31,625	

Software was purchased through the AAESA in which Martin Public Schools uses the software provided by the ISD. The note payable is non-interest bearing due in yearly installment on April 1.

MARTIN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2007

2006 Bus Loan

Principal due February 1	Interest due February 1	June 30	Amount
$ 12,378	$ 2,906	2008	$ 15,284
13,043	2,242	2009	15,285
13,755	1,530	2010	15,285
14,554	731	2011	15,285
$ 53,730	$ 7,409		$ 61,139

Note payable for purchase of bus in 2006.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Education
Martin Public Schools
Martin, Michigan

September 12, 2007

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Martin Public Schools' as of and for the year ended June 30, 2007, which collectively comprise Martin Public Schools' basic financial statements and have issued our report thereon dated September 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Martin Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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To the Board of Education
Martin Public Schools

September 12, 2007

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiency described as 2007-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above as 2007-1, is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Martin Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Martin Public Schools' in a separate letter dated September 12, 2007.

Martin Public Schools' response to the findings identified in our audit are described in the accompanying schedule of findings and response. We did not audit Martin Public Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of education, management, others within the entity and the U.S. Department of Education, Michigan Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costerisan & Ellis, P.C.

Certified Public Accountants

Schedule of Findings and Responses

Finding 2007-1

Finding considered a significant deficiency

Criteria:

Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Condition

Currently, the District's staff prepares the interim financial reports and assists the external auditor in the preparation of the annual audit report.

Cause

The staff of the district does understand all information included in the annual financial statements; however, assistance of the external auditor was utilized in preparing the footnotes to the financial statements.

Effect

Utilization of the external auditor in preparing the footnotes to the financial statements assists management with the external financial reporting responsibility, to ensure their financial statements are accurate.

Recommendation

At this time, we recommend no changes to this situation and communicate this as required by professional standards. The current process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

Maner, Costerisan & Ellis, P.C.
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September 12, 2007

To the Board of Education
Martin Public Schools
Martin, Michigan

In planning and performing our audit of the financial statements of Martin Public Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Martin Public School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 12, 2007 on the financial statements of Martin Public Schools. Our comments are summarized as follows:

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Accounting Manual

It was noted the District does not currently have an accounting manual to document procedures for different accounting transactions and cycles. A manual should be written and maintained to ensure that in case of emergencies, vacations, or when questions arise about proper procedure, this manual can be used as a reference.

New Notification Requirements for Related Not-for-Profit Organizations with Gross Receipts of $25,000 or less Such as Booster Groups and PTO's

The Pension Protection Act of 2006 requires these organizations to file an annual electronic notice for tax periods beginning after December 31, 2006, if these organizations are not required to file Form 990 (or 990-EZ), Return of Organization Exempt From Income Tax because their gross receipts are normally $25,000 or less.

If they are a section 509(a)(3) supporting organization, generally, they must file a paper or electronic Form 990 (or Form 990-EZ) even if their gross receipts are normally $25,000 or less. However, if they are a supporting organization of a religious organization and their gross receipts are normally $5,000 or less they may file an annual electronic notice instead of Form 990 (or Form 990-EZ).

The annual electronic notice is due by the 15th day of the fifth month after the close of their tax period. For example, if their tax period ends on December 31, 2007, the annual electronic notice is due May 15, 2008.

The notice will require these organizations to provide the following information:

- Organization's legal name,
- Any other names your organization uses,
- Organization's mailing address,
- Organization's website address (if applicable),
- Organization's employer identification number (EIN),

- Name and address of a principal officer of your organization.
- Organization's annual tax period,
- Verify that your organization's annual gross receipts are still normally $25,000 or less, and;
- Indicate if your organization has terminated (is no longer in business).

IRS 403(b) Final Regulations

Intent

The intent of the regulations is to consolidate guidance on §403(b) plans issued since 1964.

Effective Date

These regulations are generally effective for taxable years beginning after December 31, 2008. Plan documents should be in place December 31, 2008 to be implemented as of January 1, 2009.

Written Plan Document

The IRS is working on a model plan document and guidance for school districts. This should contain the provisions necessary for compliance with the new rules.

A plan may consist of several documents, or make reference to other documents, such as annuity contracts and custodial agreements. The employer must ensure that there are no conflicts or inconsistencies between the documents.

The document must contain eligibility rules, benefits available, limitations, allowable vendors, and time and form distributions.

The document must allocate administrative and compliance responsibilities to the employer and/or designated third parties. The plan may not allocate compliance responsibilities to the participants.

Other Provisions

- Exchange of investment products
- Universal availability
- Distributions
- Terminations

Suggestions

Set up a committee of benefit officials and participants to review the current plan and design the future plan.

Determine if you need a third party administrator (TPA) to administer the plan and create a request for proposal (RFP) for services.

Offer employee education. The IRS is developing this type of information as well as a model plan for school districts.

New Auditing Standards

Recently, 10 new auditing standards have been released and are effective, or will become effective for your June 30, 2008 year end. In reviewing the new standards, they will have an impact on our overall audit approach. The trend is to perform audit procedures utilizing more of a risk based approach. One area which will continue to be emphasized is your internal controls.

New Interpretation Of Deferred Compensation Rules Applicable To Teachers And Similar Employees

In August of 2007, the IRS issued new questions and answers related to deferred compensation which can effect teachers and similar employees.

When employees can elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation under the Internal Revenue Code. These payments could be subject to an additional 20% tax if the specified procedures are not followed. For example, school employees who work 10 months but are paid over 12 months would be deferring compensation into a future year.

These rules are not applicable unless an election must be made. If a school district provides that all employees must spread their pay over 12 months, these rules do not apply.

In order to avoid imposition of extra taxes, the employees must give a written or electronic election to notify the employer that they want to spread out the compensation. This election must be provided before the start of the school year and must be irrevocable. The election must state how the compensation is going to be paid (for example, ratably over the 12 months starting with the beginning of the school year). This election does not need to be made for future years if the arrangement provides that the election will remain in place until the employee elects a change. These rules are effective January 1, 2008. Therefore, they are not applicable until the election for the 2008 - 2009 school year.

This report is intended solely for the information and use of Martin Public Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner, Costerisan & Ellis, P.C.

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September 12, 2007

To the Board of Education
Martin Public Schools
Martin, Michigan

We have audited the financial statements of Martin Public Schools for the year ended June 30, 2007, and have issued our report thereon dated September 12, 2007. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards.

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Martin Public Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Martin Public Schools compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Martin Public Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by Martin Public Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements were:

Management's estimated liability of compensated balances at June 30, 2007. The estimated liability is $67,596.

The overpayment from the State of Michigan is recorded as deferred revenue in the amount of $114,787.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Martin Public Schools financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Martin Public Schools, either individually or in the aggregate, indicate matters that could have a significant effect on Martin Public Schools financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Martin Public Schools financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Martin Public Schools auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We have discussed the Statement on Auditing Standards #112 with management.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the board of education and management of Martin Public Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner, Costerisan & Ellis, P.C.